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**Subject: BUSINESS FINANCE**

**Program: BBA**

**Summer Final Assignment 2020**

**Question 1**

**A:**Compute the present values discounted at 12% of receiving; a. An initial Rs. 55,000- at the end of year 4; b. Rs. 60,000- at the end of year 5; c. Rs. 80,000- a year for the next 10 years.

**Answer:**

I = k= 12

FV = 55000

N = 4

Pv =?

**According to formula**

**PV = FV/(1+K) ^n**

= 55000/ (1+12%) ^4

= 55000/ (1+0.12) ^4

= 55000/1.5735

= 34953.924

FV = 60000

N = 5y

I = 12%

**PV = Fv / (1+0.12) ^5**

= 60000/1.7623

= 34046.41

Fv = 80000

N = 10y

I = 12%

**PV = fv/ (1+0.12) ^10**

= 80000/3.1058

= 25758.25

**B:**Your uncle is about to retire at the age of 60.  His firm has given him a choice of retiring with a lump sum of RS. 2,000,000- or an annuity of Rs. 120,000- for 10-years.  Which is worth more now, if annual interest rate of 8% is used for an annuity?

**ANSWER**

N = 10

i = 8%

FVA=?

PVA= 120,000

FVA = 120,000(FVIFA8,10)

= 120,000(14.487)

=1,738,440

So I will say that that Rs 2,000,000 is worth more today than 1,738,440 after 10 year.

**C:**A 56 years old executive is about to retire and expects to live to age of 80.  Assuming 8% rate of return, find the amount he must have at age 60 in order to receive Rs. 80,000- annually from retirement until his death.

**Answer**

PMT=80000

I = 8%

Pv= PMT [1-(1+i)-n]

i

=80000 [1-(1.08)20]

0.08

= 786000

**Question 2**

**A:** you have applied for a home mortgage of Rs. 2,500,000- to finance the purchase of a new home for 10-years.  The bank required 12% interest rate.  What will be the annual payment?

**Answer**

I= 12%

N= 10

PVA =A (PVIFAi,n)

Year 250000 = A (PVIFA12%)

1. 250000 / (0.8929) = 27998.65606

2. 250000 / (1.6901) = 1479202.414

3. 250000 / (2.9018) = 861534.2201

4. 250000 / (3.0373) = 82309.4633

5. 250000 / (3.6048) = 693519.7514

6. 250000 / (41114) = 608065.3792

7. 250000 / (4.5638) = 547789.1231

8. 250000 / (49616) = 503261.1321

9. 250000 / (5.3282) = 46920.6065

10. 250000 / (5.6502) = 442462.2137

**B:**It has been observed that year-end financial statement may show rosier picture of the financial condition than at any other time in the year due to some window dressing steps being taken by the management.  As a financial analyst how can you overcome this issue, so that the actual financial position may be looked into?  Please comment briefly

**Answer**

Yes, it is true that the companies do some big transactions at the end of financial year to show better condition of the company. That cause biasness, as it is not the actual picture of the company for the whole ended year. The management should take into account the quarterly financial statement for the evaluation of the company.

**C: An XYZ company has net accounts receivable of Rs. 280,000- as of Dec. 31, 2012 and RS. 320,000- as of Dec. 31, 2013.  Net cash sales for 2013 were Rs. 120,000-.  The accounts receivable turnover for 2013 was 3x.  What were the company’s total net sales for 2013?**

**Answer**

Avg receivable = 280000 + 32000 / 2

= 30000

Rec turnover = 3

So, the net credit sales will be

Net credit sale = 30000 \* 3

= 900000 + 120000

Net cash sales 2013 = 900000 + 120000

= **1020000**

**Question 3**

**A**: What is meant by liquidity analysis? And what are the three ratios that are used to measure liquidity of a firm?

**Answer:**

**Liquidity Ratios**

1) Current ratios = current assets / current liabilities.

2) Quick ratios = current assets – inventory / current liabilities

3) Cash ratios = total cash & cash equivalent + short term inventory / current liabilities

**B:**If the company has Rs. 50,000- as cost of goods sold, the beginning inventory was Rs. 50,000-, and the ending inventory was Rs. 45,000-; what will be its inventory turnover?

**Answer:**

**INVENTORY TURNOVER:**

Avg inventory = 50000 + 45000 / 2= 47500

Inventory turnover = cost of goods sold / avg inventory

= 50000 / 45000

= 1.05

**Question 4**

**A**: Distinguish between temporary and permanent working capital.

**ANSWER**

**PERMANENT WORKING CAPITAL.**

Permanent working capital refers to a level of current assets which is to be maintained and vital for the firm to carry its business regardless of the operation levels. While Temporary working capital refers to the working capital which is over and above the permanent working capital. It is required to meet seasonal needs and temporary requirements Permanent working capital is also known as fixed or hardcore working capital. Temporary working capital is also known as fluctuating or variable or seasonal working capital.

Permanent capital does not depend upon any factors while temporary working capital depends upon several factors as it is kept on fluctuating from period to period. Permanent working capital is stable while temporary working capital is fluctuating i.e., sometimes increasing and sometimes decreasing.

**TEMPORARY WORKING CAPITAL**

Temporary working capital (TWC) is the temporary fluctuation of networking capital over and above the permanent working capital. It is the additional working capital requirement arising out of seasonal demand of the product or any special event which otherwise are not predictable. In other words, it is the difference between net working capital and the permanent working capital.

Business earnings are not like the salary earnings of an employee. An employee earns an equal amount of money every month throughout the year. But businesses are rarely of such nature. In business, businessmen get an opportunity to earn good money at a particular time and all businessmen try to grab such opportunities. This requires additional working capital for him to take that advantage. Such a requirement of working capital is temporary working capital.

**B**: Which category of the shareholders is the real owners of a company and give at least two reasons as why they are the real owners?

**ANSWER**

business activities. A working capital examination gives data on the organization's budgetary position. For instance, organizations with a bigger measure of working capital experience less budgetary worry during troublesome periods or seasons of high client orders. All organizations have lasting working capital prerequisites, while a few organizations likewise experience transitory financing necessities. At the point when the firm follows coordinating methodology, i.e., supporting methodology, long term financing will be utilized to back fixed resources and lasting current resources and short-term financing to fund transitory or variable current assets. As the degree of fixed resources builds, the drawn-out financing level also increases. Under coordinating arrangement, no transient financing will be utilized if the firm has a fixed current resource need as it were. As the degree of current resources increments, the short-term financing likewise increases. Short-term financing might be favored over long haul financing for two reasons, i.e., the cost bit of leeway and adaptability. Transient financing should generally be less exorbitant than long haul financing. The present moment and long-haul financing have a utilizing impact on shareholders' return. In India, the momentary advances cost more than long-term loans. Utilizing transient financing to life partner its present resources, a firm runs the risk of reestablishing borrowings over and over. There is in every case less danger of disappointment when the long-haul account is used.

The supporting way to deal with working capital financing depends on the idea of bifurcation of absolute working capital needs into perpetual working capital and transitory working capital. As the name itself proposes, the existence term of current resources and the development time of the wellsprings of assets are coordinated. The overall principle is that the length of the money should coordinate with the existence span of the benefits. That is the reason the fixed resources are constantly financed by long haul sources as it were. Thus, the perpetual working capital needs are financed by long haul sources. Then again, the impermanent working capital needs are financed by transient sources as it were. At the end of the day, the center or fixed working capital is financed by long haul wellsprings of assets while the extra or fluctuating working capital needs the financed by the momentary sources. **For instance**, an occasional extension in inventories ought to be financed with transient credit or liabilities. The reason of the supporting guideline is straight forward. Assets are required for a restricted period state for acquisition of extra stock, and when that period is finished, the money expected to reimburse the advance will be produced by the offer of additional stock things. Acquiring the required assets from a long terms source would imply that the firm would at present have the store after the inventories had just been sold. For this situation, the firm would have abundance liquidity, which it either holds in real money or attractive protections until the occasional increment in inventories happens once more. The consequence of this would be brings down the benefits of the firm. The financing blend as recommended by the supporting methodology is an attractive financing design. In any case, it might be noticed that the specific match of development time of current resources and wellsprings of money is consistently unrealistic as a result of vulnerability included.